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TO ALL DIPLOMATIC POSTS

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E.O. 11652:N/A

TAGS: EFIN, IBRD

SUBJECT:NEW IBRD LENDING POLICIES AND NEW U.S. STATEMENT ON
LENDING TO OIL PRODUCERS

REF: STATE 6245

1. JANUARY 21 IBRD BOARD OF DIRECTORS MEETING APPROVED
CHANGES IN IBRD LENDING POLICIES. INTEREST RATE IS TO BE
RAISED FROM CURRENT EIGHT PERCENT TO 8-1/2 PERCENT, EFFEC-
TIVE FEBRUARY FIRST, IN ORDER TO INCREASE BANK EARNINGS AND
THEREFORE MAINTAIN ITS ABILITY TO RAISE FUNDS IN CAPITAL
MARKETS AND CONTINUE TRANSFERS OF PROFITS TO IDA.

2. AS A GENERAL RULE IBRD LOANS TO HIGHER INCOME COUNTRIES

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(THOSE WITH OVER DOLS. 850 PER CAPITA GNP) WILL BE LI-

MITTED TO A MAXIMUM MATURITY OF FIFTEEN YEARS.

3. FYI. ON THE QUESTION OF RELATIONS WITH WEALTHIER OPEC COUNTRIES, IBRD MANAGEMENT NOTED THE BENEFITS TO THE BANK OF FINDING SATISFACTORY FINANCIAL ARRANGEMENTS WITH CAPITAL SURPLUS OIL EXPORTING COUNTRIES, OTHER THAN OFFSET PURCHASES BY THEM OF IBRD BONDS. A DESIRABLE POSSIBILITY TO BE EXPLORED IS SOME KIND OF "BUY-BACK" BY THE BORROWING COUNTRY OF ANY IBRD LOAN TO IT, A PROCEDURE WHICH, UNLIKE AN EQUIVALENT BOND PURCHASE, WOULD NOT ENCUMBER THE BANK'S CALLABLE

CAPITAL AND IMPLICITLY DRAW ON THE U.S. AND OTHER PART I COUNTRIES' GUARANTEES. McNAMARA ANNOUNCED AT THE MEETING THAT IRAN HAD DECIDED NOT TO BE A BORROWER ANY LONGER, BUT STILL WANTED TECHNICAL ASSISTANCE FOR WHICH REIMBURSEMENT WOULD BE MADE. McNAMARA SAID LENDING TO OTHER OPEC COUNTRIES WHICH THE BANK CONSIDERS TO BE IN A LONG-TERM CAPITAL SURPLUS POSITION IS EXPECTED TO BE LESS THAN DOLS. 100 MILLION A YEAR STARTING IN FY-1976.

4. AT THE SAME JANUARY 21 BOARD OF DIRECTORS MEETING, U.S. EXECUTIVE DIRECTOR CHARLES SETHNESS FURTHER CLARIFIED THE DECEMBER 17 U.S. POLICY STATEMENT ON BANK LENDING TO CAPITAL SURPLUS OIL EXPORTING COUNTRIES AS FOLLOWS:

5. "FOR THOSE RICHER OIL EXPORTING COUNTRIES WITH FINANCIAL RESOURCES IN SUBSTANTIAL EXCESS OF NEAR-TERM DEVELOPMENT NEEDS, THE BANK SHOULD REQUIRE EFFECTIVE "BUY-BACK" ARRANGEMENTS BEFORE ANY NEW LOANS ARE MADE, AND ALSO REQUIRE FULL REIMBURSEMENT FOR TECHNICAL AND MANAGERIAL ASSISTANCE. FOR POORER OIL EXPORTING COUNTRIES, WE COULD ENVISION LESS THAN FULL REIMBURSEMENT FOR TECHNICAL ASSISTANCE. LOANS TO OIL EXPORTING COUNTRIES WHICH DO NOT INCORPORATE "BUY-BACK" PROVISIONS SHOULD BE CONSIDERED ON THE MERITS OF EACH SUCH COUNTRY'S SITUATION, AND SHOULD BE BASED ON ITS NEED FOR FINANCIAL SUPPORT, TAKING INTO ACCOUNT ITS CURRENT AND PROSPECTIVE ECONOMIC SITUATION AND FOREIGN EXCHANGE REQUIREMENTS. THE TOTAL OF ANY SUCH LOANS TO OIL EXPORTING COUNTRIES SHOULD BE CAREFULLY MONITORED, BEARING IN MIND THE PRESSING NEEDS OF OTHER DEVELOPING COUNTRIES FACING SERIOUS

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BALANCE OF PAYMENTS DEFICITS." END FYI. KISSINGER

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